

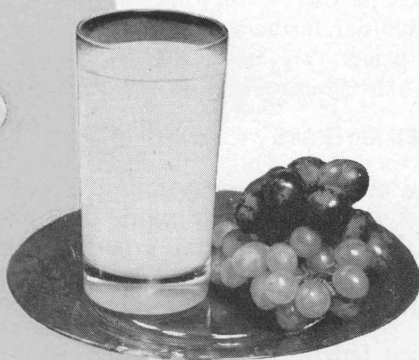
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Federal Milk Marketing Orders



- Terms
- Operations
- Limitations



THE AGRICULTURAL AND MECHANICAL
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FEDERAL MILK MARKETING ORDERS

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FEDERAL MILK MARKETING ORDERS are legal instruments authorized by Federal law for regulating certain aspects of the dairy industry. They are issued by the Secretary of Agriculture after numerous provisions of the law have been met. An order carries with it two basic requirements. First, it requires that dairy farmers *regularly* supplying the market be paid not less than certain minimum prices established in accordance with the way or form in which the milk is used. These prices are established under the order after a public hearing and are made effective only if dairy farmers approve the order. Secondly, it requires that payments for milk be pooled and paid out to individual farmers on the basis of a uniform or average price.

WHERE THEY OPERATE

Federal orders now operate in 79 fluid markets. These marketing areas serve more than 78 million consumers. Last year federal orders regulated the handling of 40 billion pounds of milk produced by 189,000 dairy farmers.

The first federal milk marketing order in Texas was established in October 1951, for the North Texas market. Since then, six other orders have been established: the San Antonio, Central-West Texas, Austin-Waco, Corpus Christi, Panhandle and Red River marketing areas.

Last year in Texas, more than 5,300 dairymen delivered 1.8 billion pounds of milk in these seven marketing areas under Federal order regulations.

The designated marketing areas of these seven federal orders include 86 Texas counties, and regulated handlers obtain milk from Texas dairy farmers located in 125 counties. Since 6 out of every 10 pounds of milk sold by Texas dairy farmers is priced

under federal marketing orders, they exert a great influence on the Texas dairy industry. The pricing of most of the remainder of producer milk in Texas is related to the levels established in these federal order markets.

OBJECTIVES

Federal milk marketing orders stabilize market conditions. They operate to correct conditions of price instability and price fluctuations which tend to interrupt milk production.

Prices to producers established under an order are minimum prices. Handlers may pay producers more than the minimum price. Statements sometimes are made to the effect that one of the objectives of federal milk marketing orders is to increase the price that producers receive for milk. If this happens under a federal order, as it sometimes does, it is incidental to the operation of the program. To increase price is not one of the objectives.

A federal order attains its objectives by means of a legal framework of procedures through which

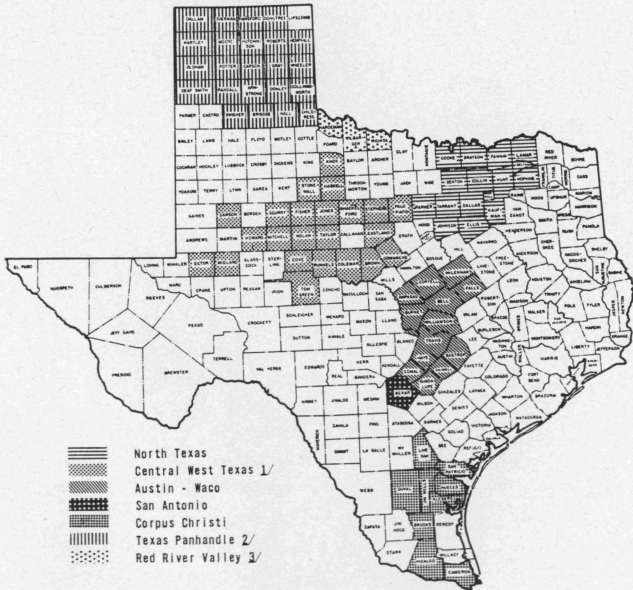


Fig. 1. Federal milk marketing order areas for Texas.

¹Includes only cities and towns in this area plus the U. S. Air Force Base at Abilene.

²Also includes Beckman County, Oklahoma.

³Also includes eight counties in Oklahoma.

orderly marketing activities can be carried out. This legal framework serves to:

1. Give farmers, milk handlers and the public an active voice in determining minimum farm milk prices through a public hearing.

2. Establish minimum farm milk prices that assure farmers as much for their milk as general supply and demand conditions in the market warrant and assure the market of adequate supplies of milk.

3. Provide for orderly marketing of surplus milk through (a) a pricing method based on the uses for which milk is sold, and (b) a payment method by which farmers are assured uniform prices for the milk they deliver to the market or to individual dealers.

4. Reduce the danger of unwarranted and harmful manipulation of prices paid to farmers.

5. Assure farmers of accurate weighing, testing and classification and accounting for milk.

6. Make information available on the handling of milk in the marketing area so that interested parties can evaluate the market situation.

Orderly marketing is sought by specifying in advance the terms for producers and handlers. These terms are developed largely through public hearings where producers, handlers and consumers have an opportunity to testify. Once an order is in effect, information about milk supply and demand is compiled and released to all interested parties.

A federal order applies to a specific marketing area. Handlers within the market are the only persons regulated. A handler must pay the minimum price for milk, make accurate weights and tests and account for the way the milk is used. Legal action can be taken against handlers who fail to comply.

Under a federal order, handlers pay for milk in accordance with a classified pricing plan. Proceeds of the milk sales are distributed among producers by a specified pooling arrangement. Some markets have base rating or other plans designed to reduce the seasonal fluctuations in milk production.

Federal orders *do not* substitute for producer cooperatives. Cooperatives represent their members at hearings and carry on many other marketing functions outside the scope of federal orders.

Each order is administered by a market administrator appointed by the Secretary of Agriculture.

The costs of operating a federal order are defrayed by assessments on the milk received by dealers. Each order provides the rate of assessment. This usually ranges from 2 to 5 cents per hundredweight depending on the volume of milk and the services provided by the administrator's office.

ADVANTAGES OF FEDERAL ORDERS

1. They provide a uniform system of accounting under which farmers can be certain that they are being paid according to the use made of their milk.

2. No producer is discriminated against if he conforms with the sanitary requirements and terms of the order.

3. The facts are available to all interested parties about milk supply and demand in the marketing area.

4. Handlers must pay the minimum price, make accurate weights and tests and account for the way in which the milk is used.

5. Handlers also must pay for the milk in accordance with a classified pricing plan.

6. Although federal orders do not prohibit imports of milk from other areas or sources, they do provide that such "outside" milk cannot be purchased at prices lower than those established under the order.

7. Federal orders contribute to more orderly marketing and tend to reduce "cut-throat" competition among handlers.

LIMITATIONS OF FEDERAL ORDERS

1. They do not guarantee a given price level — prices are set to reflect supply and demand conditions, to assure an adequate supply of pure and wholesome milk and to be in the public interest.

2. They do not establish resale prices — only minimum prices paid by handlers for milk going into various uses. Resale prices are established by the milk dealers.

3. They do not guarantee a buyer to farmers — handlers are not required to purchase milk from a particular farmer.

4. They do not control production or prohibit the marketing of milk from any production area in any other area of consumption.

5. They do not establish or enforce sanitary standards — this still is a matter controlled by state and local authorities.

6. They are another form of government regulation. Some dairymen resent government regulations in any form.

7. Individual dairymen must accept the will of the majority both in obtaining a marketing order and in all amendments to it.

8. While operating under an order, handlers may be more reluctant to bargain for higher prices to producers. To many handlers, prices established under an order are considered the maximum that they should pay producers.

9. Prices established under an order may not reflect the true relationship between production costs, output or supply and the demand and income situations in the market. Using correct indicators is of greatest importance.

PROVISIONS OF A MILK MARKETING ORDER

Findings and Determinations

The legal instrument known as the "order" usually contains an opening section devoted to the findings and determinations of the Secretary of Agriculture with respect to the need for an order, the pricing standards used in fixing the level of minimum prices and the statement that the order, as promulgated, has been approved by the required number of milk producers.

Definitions

To specify clearly which handlers are to be regulated and which producers are to benefit from the operation of the milk order, an early section of the regulation is devoted to a definition of such key terms as "handler," "producer," "producer-handler" and "marketing area."

Market Administrator

Each order provides for the appointment of a market administrator by the Secretary of Agriculture

to administer the terms and provisions of the regulation as it applies to the marketing area.

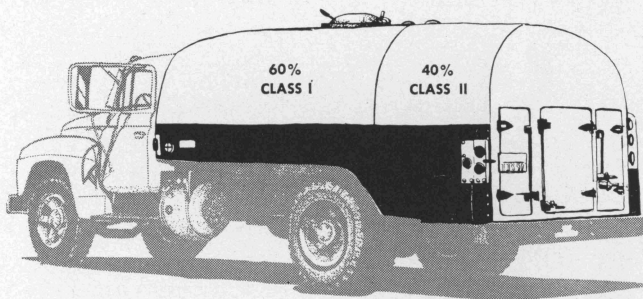
Reports of Handlers

Handlers are required to submit monthly reports to the market administrator. These reports show the amount of milk received from producers and from other sources, the utilization of this milk in the different classes, and other pertinent data.

Classification of Milk

All federal milk orders establish a classification plan for the various uses of fluid milk and cream. The objective is to establish prices based on relative values to handlers (and consumers). In Texas markets, a higher minimum price is established for Class I than for Class II milk and producers receive a “blend” price based on the volume of milk used in each class.

Below is an example of how the blend price is computed.



Class I price \$6.00 per cwt., Class I value (60% of \$6.00)	\$3.60
Class II price \$4.00 per cwt., Class II value (40% of \$4.00)	1.60
Blend price	\$5.20

Minimum Class Prices

Each order establishes the minimum price or a formula for determining prices for each class of milk. Formulas for determining the price of Class I milk vary widely from market to market. Some formulas tie the price of Class I milk to the price for milk in manufacturing uses; others base it on indicators of general and local economic conditions.

The difference of the Class I price over the price for milk in manufacturing uses varies. The price established applies to milk of a standard butterfat content delivered either f.o.b. to the market or to a

specified distance from the market. The order may also provide for "butterfat" and "location" differentials which vary the minimum price for butterfat variations and distances of receiving stations.

Uniform Prices to Producers

Federal milk orders require the operation of a "pooling" plan to insure that each producer will receive a price uniform with that paid other producers supplying the same handler or the same market.

It may provide for either market-wide or individual-handler pools. In a market-wide pool, all milk from producers is combined into a single pool and they all receive the same uniform price. With individual handler pools, all milk from each producer delivering to each handler is combined into separate pools.

The uniform prices are modified for each producer, because of the differences in the butterfat content of the milk delivered by individual producers and the distances from the market at which the milk is delivered to handlers. These are known as "butterfat" and "location" differentials to producers. Some other types of differentials also are permitted, such as "volume," "market," and "quality" differentials.

Other Provisions

Other provisions are designed to make the order effective, govern such practices as time and method of paying producers, amount of assessments for administration, suspension or termination and provisions governing entry of new producers or plans to influence seasonality of supplies.

A more detailed explanation of the terms and operation of federal milk marketing orders is contained in Texas Agricultural Experiment Station Bulletin No. 959, available from the Agricultural Information Office, College Station, Texas.